BAIRD
Private Wealth Management

Fixed Income Weekly Monitor

Treasuries bear-steepened as risk-aversion melted down and equities and corporate credit spreads rallied. Munis completed their relative-value round trip. The dynamic was helped by the under-predicted improvement in the labor market.

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June 8, 2020

Treasuries

Treasury yields bear-steepened in nearly perfect negative correlation with risky assets last week. Risk-aversion declined across asset classes, with the S&P 500 up ~5.8%, the VIX down -4 points, investment-grade corporate credit spreads tightened -25 bps, high-yield spreads tightened -121 bps, and Muni ratios returned from a round trip to oblivion. The move higher in Treasury yields, particularly on the longer-end of the curve, was consistent throughout most of the week with an acceleration on Friday in response to the much better-than-expected (and very poorly predicted) labor report. (Although we note that the positive labor report was somewhat overstated due to a misclassification in the unemployment measurement.)

During the past week, Treasuries were mixed: 3 mos. bills +0.7 bps at 0.14%, 1 yr Treasury Notes +0.5 bps to 0.17%, 2-year Note yields +0.5 bps at 0.21%, 5-year Notes yields +16 bps at 0.46%, 10-year Notes yields +23.2 bps at 0.88% and 30-year bonds yields +23.9 bps at 1.66%.

Municipals

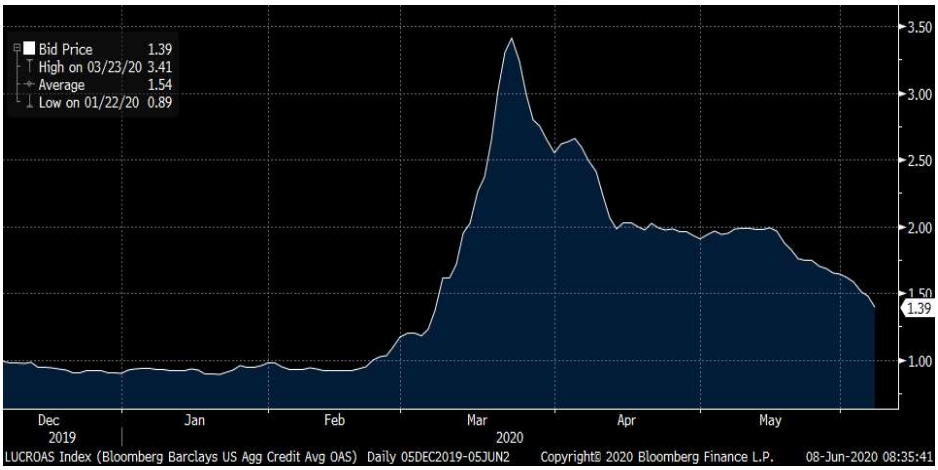
Bloomberg Municipal Index yields declined sharply over the past week; AAA-rated GO yields 2-year bonds +4 bps to 0.16%%, 5-year bonds +1 bps at 0.42%, 10-year bond yields +1 bps to 0.82% and 30-year bonds were +0 bps at 1.73%.

The 10yr AAA GO Ratio ended at **97.4**.

Corporates

- BAML Investment-grade Index spreads were -25 bps tighter to 160 bps OAS (graph).
- High-yield spreads were –121 bps to 550 bps OAS.

Bloomberg Barclay's Investment-Grade Corporate Spread (6 mo)



Source: Bloomberg, OAS

Looking Ahead

- 6/10: CPI, FOMC Rate Decision
- 6/11: PPI, Jobless Claims

6/8/2020					
Treasuries	**Nominals**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	1 yr	0.17	1	4	-140
	2yr	0.21	6	6	-136
	5yr	0.46	16	13	-123
	7yr	0.71	21	18	-112
	10yr	0.91	24	22	-101
	30yr	1.69	24	30	-70
	Inflation breakeven	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	0.97	11	23	-72
	10yr	1.26	8	15	-52
	Real yield	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	-0.52	4	-10	-50
	10yr	-0.38	16	6	-51
Municipals	**AAA Rated GO**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr AAA GO	0.19	4	-62	-87
	5yr AAA Go	0.46	4	-52	-68
	10yr AAA GO	0.86	4	-43	-62
	A Rated GO	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A GO	0.71	19	-39	-44
	5yr A GO	1.07	19	-40	-22
	10yr A GO	1.44	11	-40	-33
	A Rated Revenue	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A Revenue	1.12	10	-31	-11
	5yr A Revenue	1.49	6	-40	8
	10yr A Revenue	2.12	3	-27	27
	GO Ratios	**Ratio**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	5yr AAA GO Ratio	99.13	-38.0	-160.7	31.9
	10yr AAA GO Ratio	97.40	-27.9	-97.2	20.1
MBS 30-yr		**Curr. Cpn.**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	FNMA	1.77	12	17	-95
	GNMA	1.65	12	28	-78
Corporate	**Yield %**	**OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**
Intermediate IG Index	1.72	120	-29	-66	50
AA rated	1.62	76	-15	-47	28
A Rated	1.92	109	-22	-46	39
BBB Rated	2.81	194	-36	-77	69
Intermed. High-yield Index	6.07	540	-104	-206	207
BB Rated	4.41	370	-82	-149	188
B Rated	5.89	516	-111	-219	192
CCC Rated	11.03	1035	-156	-391	166
Preferred Index	5.70				
Other		**Level**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	Fed Funds Rate (Eff.)	0.06%	0.01%	0.01%	-1.49%
	3M Libor	0.31%	-0.03%	-0.16%	-1.60%
	Treas. Volatility Inde:	62.0	6.9	4.6	3.7
	S&P 500 Index	3193.9	4.91%	9.02%	-1.14%
	VIX Index	25.0	-3.2	-3.0	11.2
	U.S Dollar Index	1207.9	-1.00%	-3.13%	1.94%

Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond's price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody's Aa1 and S&P's AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

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